

AUDITING PROCEDURES REPORT

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Local Government Type [] City [] Township [] Village [x] Other		Local Government Name Washtenaw Community Health Organization	County Washtenaw
Audit Date 9/30/04	Opinion Date 12/17/04	Date Accountant Report Submitted to State: 6/21/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

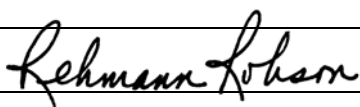
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | | | | |
|-----|-----|-------|----|---|
| [] | Yes | [x] | No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| [] | Yes | [x] | No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| [] | Yes | [x] | No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| [] | Yes | [x] | No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| [] | Yes | [x] | No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| [] | Yes | [x] | No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| [] | Yes | [x] | No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| [] | Yes | [x] | No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| [] | Yes | [x] | No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).	X		

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			



**washtenaw community
health organization**

**Financial Statements
And
Supplementary Information**

For The Year Ended September 30, 2004



WASHTENAW COMMUNITY HEALTH ORGANIZATION

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WASHTENAW COMMUNITY HEALTH ORGANIZATION

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



INDEPENDENT AUDITORS' REPORT

December 17, 2004

The Board of Directors
Washtenaw Community Health Organization
Ypsilanti, Michigan

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the ***Washtenaw Community Health Organization*** as of and for the year ended September 30, 2004, which collectively comprise the Organization's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Washtenaw Community Health Organization's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Washtenaw Community Health Organization as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2004, on our consideration of the Washtenaw Community Health Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Washtenaw Community Health Organization's basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.

MANAGEMENT'S DISCUSSION and ANALYSIS

WASHTENAW COMMUNITY HEALTH ORGANIZATION
Management's Discussion and Analysis
Fiscal Year October 1, 2003 – September 30, 2004

The Washtenaw Community Health Organization (WCHO) provides integrated mental health, substance abuse, and physical health services for persons with severe and persistent mental illness and persons with developmental disabilities. The year ended September 30, 2004 completes WCHO's second year as the Prepaid Health Plan for Medicaid covered services for this population in the Southeastern region of Michigan including the Counties of Lenawee, Livingston, Monroe and Washtenaw. Prior to October 1, 2002, only consumers in Washtenaw County were included in the WCHO realm of responsibility. This significant change has resulted in an increase in Medicaid funding from \$28,024,908 in the year ended September 30, 2002 to this year's funding level of \$71,542,071 for the Mental Health population and from \$553,549 to \$997,309 for the Substance Abuse population.

The information provided within this Management's Discussion and Analysis is supplemental to the basic financial statements. It is not intended to replace the basic financial statements, nor does it provide contrary financial data. The analysis section of this summary will identify major issues of importance for anyone reviewing these financial statements.

FINANCIAL OVERVIEW

The financial structure of the organization is based on fund accounting. Each fund represents the broad parameters within which financial decisions may be made. The WCHO currently has three major components within its financial structure: Mental Health, Substance Abuse, and the internal service funds. Each of the major funding separations includes restrictions and mandates as to how funds may be utilized in providing medically necessary services for the identified populations. The internal service funds (ISFs) represent reserves in the event of insufficient funds to cover necessary or mandated services. In previous years, the ISFs were specific to Washtenaw only. The current ISFs covers all four counties in our Region. Within each of our major funds, subsets of areas of responsibility are further delineated. This segregation of activities and objectives ensures and demonstrates compliance with financial requirements and regulatory restrictions and maintains a separation of funding streams.

The financial structure has also been designed to provide a financial presentation of the services provided by the organization. These services include: general outpatient services, inpatient hospitalization, licensed residential facilities, supported community living, substance abuse treatment and prevention, and special projects including state, local, and grant-supported activities. The vision of the WCHO is to provide integrated health care, including physical health, mental health, and substance abuse. Because this integration is an area of potential growth for the organization, separation of this funding is designed to focus on this goal and to show that growth over time. Currently, physical health services are included within the Mental Health Fund; however, to maintain proper management of distinct funds, it is separated in a sub-section. Therefore, the integrity of these funds is maintained. This structural separation of activities maintains all the funding restrictions of the budget.

Government-wide Financial Statements

The *Statement of Net Assets* presents the financial status of the organization's assets and liabilities. It presents the current financial status of the organization. During this second year of operation under the recently adopted GASB 34, the organization did not purchase any capital assets subject to depreciation on the financial statements. However, subsequent to year-end, in October and November of 2004, the organization purchased four licensed residential homes. Long-term debt of \$346,215, in the form of a "Recoverable Grant" received from Washenaw County, was incurred in August 2004 in anticipation of acquiring the four homes. The homes will be capitalized and depreciated accordingly, beginning in Fiscal Year 2004-2005.

The *Statement of Activities* presents the financial data that resulted in a change to the net assets. This report presents the revenue earned and the expenses incurred during the fiscal period beginning October 1, 2003 and ending September 30, 2004. Operations during this period resulted in an increase in net assets of \$2,113,036. Of this total, \$1,341,250 resulted from an excess of revenue over expenses incurred in operations. The remaining \$771,786 represents Risk Reserve Funds received from Affiliates of \$473,677 and net interest earnings from all funds totaling \$298,109. Major activities include mental health inpatient and outpatient services, support services, community inclusion activities, substance abuse prevention and treatment, and physical health services. Physical Health is a growth area for the organization to meet its vision of integrated health care for its identified populations.

Fund Financial Statements

The *enterprise funds financial statements* are intended to provide an overview of the organization's major areas of service. Funds are separated to maintain the integrity of the reporting and to meet all funding and regulatory restrictions on the allowable expenditure of each funding source.

Notes to the Financial Statements

The Notes provide additional information that is essential to the full understanding of the financial data provided in the financial statements. These notes are an integral part of the financial statements and should be viewed in conjunction with the information included in the statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

Total assets of the organization were \$18,794,784 at September 30, 2004. Total liabilities were \$14,118,915 at September 30, 2004, of which \$5,768,476 represents deferred revenue, i.e., allowable carry-forward funds to be expensed in the following fiscal year. Total net assets (equity) amounted to \$4,675,869 at September 30, 2004. Total net assets at September 30, 2003 were \$2,562,833.

Assets	<u>09/30/04</u>	<u>09/30/03</u>
Cash and cash equivalents	\$ 13,710,596	\$ 6,087,254
Receivables & prepayments	5,024,453	5,395,769
Other assets	23,535	-
Capital assets	<u>36,200</u>	<u>-</u>
Total Assets	<u>18,794,784</u>	<u>11,483,023</u>
Liabilities		
Accounts payable and accrued liabilities	8,004,224	4,883,048
Deferred revenue	5,768,476	4,037,142
Long-term debt		
Due within one year	46,102	
Due in more than one year	<u>300,113</u>	<u>-</u>
Total Liabilities	<u>14,118,915</u>	<u>8,920,190</u>
Net Assets		
Restricted for capital asset acquisition	310,015	-
Restricted for contract losses	1,474,561	602,602
Unrestricted	<u>2,891,293</u>	<u>1,960,231</u>
Total Net Assets	<u>\$ 4,675,869</u>	<u>\$ 2,562,833</u>

The significant amount of deferred revenue liability represents the amount of the allowable carry-forward of Medicaid and State General Funds. The capped percentage of unspent Medicaid allowed to be carried forward to the next year is 7.5% of the total Medicaid received. This is comprised of the first 5% and then one half of the next 5%. For the four-county region, combined Mental Health and Substance Abuse Medicaid carry-forward at 09/30/04 was \$4,004,938 (including \$74,798 Substance Abuse {SA}) and at 09/30/03 was \$3,259,815 (including \$51,741 SA). Any additional unspent Medicaid is required to be returned to the Michigan Department of Community Health (MDCH) and is referred to as "lapse". At 09/30/04 \$377,969 (including \$100,622 SA) of lapse was scheduled to be returned to MDCH. There was no lapse at 09/30/03.

In addition, at 09/30/04 there was \$436,326 and at 09/30/03 \$173,804 of State General Funds for Mental Health that was also carried forward. State General Funds are contracted directly with each county; therefore, this funding is not reported on a regional basis. There was a General Funds lapse of \$67,672 as of 9/30/04, compared to no lapse for the prior fiscal year.

Deferred revenue must be spent during the next fiscal year prior to that fiscal year's current year funding. Decisions for allocating the Medicaid carry-forward among the four counties are made by the WCHO and are based on proposals from each affiliate county, as well as current funding circumstances for that year.

Statement of Activities including Change in Net Assets

The *Statement of Activities* lists the major areas and sub-areas of services provided by the WCHO: Mental Health, Substance Abuse and Physical Health.

Physical Health is a growth area for the organization. Currently, funding is from grants and contracts which focus on enrollment and access activities. Other activities include the partnership with University of Michigan's Department of Health to coordinate all health care of shared populations through its Medical Management program. With our development of a shared database, reports showing all services provided to a single consumer now provides management and care providers comprehensive information for improving quality of care and controlling costs.

WCHO's largest revenue source is its contract with Michigan Department of Community Health. The contract includes both Medicaid and General Funds, with the largest revenue source being Medicaid funding through special waiver provisions granted by the Federal Centers for Medicare and Medicaid Services. Other revenue sources include local funding from Washtenaw County, the Washtenaw Health Plan, and the City of Ann Arbor, and grant funding from various grantors.

During the fiscal year ended 09/30/04 net assets of the organization increased by a combined total of \$2,113,036 resulting in total net assets of \$4,675,869.

Revenue	<u>09/30/04</u>	<u>09/30/03</u>
Program revenue:		
Charges for services	\$ 1,062,300	\$ 1,004,459
Operating grants and contributions	7,939,400	8,299,886
General revenue:		
Medicaid	72,213,176	69,869,007
State General Funds	8,227,919	9,003,356
Risk reserve funds received from Affiliates	473,677	9,312
Unrestricted investment earnings	<u>298,907</u>	<u>207,823</u>
Total revenue	<u>90,215,379</u>	<u>88,393,843</u>
Expenses		
Administration	3,361,802	3,674,835
Mental health services	79,951,726	79,276,322
Substance abuse services	4,420,460	4,507,482
Physical health services	<u>368,355</u>	<u>403,801</u>
Total expenses	<u>88,102,343</u>	<u>87,862,440</u>
Change in net assets	2,113,036	531,403
Net assets, beginning of year	<u>2,562,833</u>	<u>2,031,430</u>
Net assets, end of year	<u>\$ 4,675,869</u>	<u>\$ 2,562,833</u>

The total revenue figures shown here are the net revenue amounts for current year activities, less all deferred revenue. In accordance with the contract with Michigan Department of Community Health, the WCHO may carry forward up to 7.5% of the Medicaid and 5% of the General Funds provided under the terms of this contract. Actual carry forward was within this limit. For this fiscal year, the maximum allowable carry forward was \$5,440,453 for Medicaid and \$436,326 for General Funds. The actual carry forward amounts for the year ended 09/30/04 were \$4,004,938 for Medicaid (5.5%) and \$436,326 for General Funds (5%). For Substance Abuse, only Medicaid dollars may be carried forward. With the year beginning October 1, 2003 the carry forward of Substance Abuse and Mental Health Medicaid is no longer computed separately. All carry forward funds must be expensed in the following fiscal year prior to spending any current year funding. Carry forward funds at September 30, 2003 were as follows: Medicaid - \$3,208,074, General Funds - \$173,804, Substance Abuse - \$51,741. All were expensed during fiscal year ended September 30, 2004.

Announcements of possible state funding cuts that later did not materialize increased the difficulty in managing available funds for the provision of medically necessary services. Another difficulty in close management of spending resulted from multiple data systems used by the affiliates. By June 2005, all affiliates will be on a single system which will improve the financial projections and forecasting of financial status. Further impact on the capability to forecast revenue status was the questionable integrity of the state's data system, making projections of revenue very tenuous. This level of volatility presents a significant challenge for management. Management of services within changing or expected funding levels requires both a sensitivity of the current year conditions as well as forecasting future needs and anticipated funding levels. The ability to carry forward some funding helps to even out the peaks and valleys of changing financial supports.

The total amount of the fund balance is 5.2% of the Fiscal Year 2004 total budgeted revenues for Mental Health and Substance Abuse services. This amount, while not at the level typical of similar organizations in the private sector (7-10%) does provide some financial protection. The majority of revenue is derived from State contracts and is highly dependent on the condition of the State's budget.

Factors Impacting the Future

Since the inception of the WCHO four years ago, there has not been a year in which expenses have exceeded revenues. However, restrictions attached to the various funding streams continually challenge management's efforts to maintain vital services and provide an integrated care system.

The greatest impact to the Organization's future standing is its contract with the Michigan Department of Community Health. The funding levels from the State are in turn severely impacted by the State of Michigan's economy, potential Executive Order reductions issued by the Governor, and the approval of wavier provisions by the Centers for Medicare and Medicaid Services. The State is also rebasing revenue rates for Fiscal Year 2005-2006 based on encounter data submitted during Fiscal Year 2004-2005. This rebasing may result in reduced funding if the carry forward and lapse amounts are not taken into account.

Medicaid funding is dependent on the number of persons that meet Medicaid criteria as well as the rates assigned by the State for the various populations, gender, and age categories. That number has risen in the past year, resulting in increased costs to the Medicaid system. As of October 2002, the total Medicaid population for the region was 51,232; as of September 30, 2003, that total was 64,731. Conversely, should there be a reduction in the number of persons meeting Medicaid criteria, our funding would decrease. This reduction in the Medicaid population, however, may not impact the number of person receiving our services. Therefore, the rate paid per eligible to the WCHO is critical in maintaining our ability to provide services at the same level as previous years.

As stated earlier, the ability to carry forward up to 7.5% of Medicaid and 5.0% State General Funds does allow management to smooth out the changes in revenue and maintain medically necessary services to our identified populations.

One further restriction challenging our ability to manage medically necessary services is the inability to interchange funds among consumer groups. Thus, Medicaid funding may not be utilized for services to non-Medicaid consumers. Also, for the upcoming year, there is the further restriction against interchanging funds between the various Medicaid waivers.

A final challenge as a Region is the difficulty in reassigning General Fund dollars across the region as we can with Medicaid funds. Presently, only the State may approve any transfer of General Funds between Counties. Unless this changes, we run the risk of having a two-tiered benefit package, one for Medicaid consumers and one for Indigent consumers. This issue is one that our Board would prefer does not happen.

Requests for Information

This financial report is designed to provide a general overview of the finances of the Washtenaw Community Health Organization. Questions concerning this information may be directed to Linda L. Brown, Finance Director, Washtenaw Community Health Organization, 555 Towner, P.O. Box 915, Ypsilanti, Michigan 48197-0915.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**

**Statement of Net Assets
September 30, 2004**

	<u>Business-type Activities</u>
Assets	
Cash and cash equivalents	\$ 13,710,596
Receivables	5,024,453
Other assets	23,535
Capital assets	<u>36,200</u>
Total assets	<u>18,794,784</u>
Liabilities	
Accounts payable and accrued liabilities	8,004,224
Deferred revenue	5,768,476
Long-term debt:	
Due within one year	46,102
Due in more than one year	<u>300,113</u>
Total liabilities	<u>14,118,915</u>
Net assets	
Restricted for capital asset acquisition	310,015
Restricted for contract losses	1,474,561
Unrestricted	<u>2,891,293</u>
Total net assets	<u><u>\$ 4,675,869</u></u>

The accompanying notes are an integral part of these financial statements.

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Statement of Activities
For the Year Ended September 30, 2004

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue / Change in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Business-type activities:				
Mental health services:				
Board administration	\$ 2,998,162	\$ 299,173	\$ 1,088,528	\$ (1,610,461)
Access and care management	1,559,777	-	-	(1,559,777)
Comprehensive support and services	59,527,690	655,326	940,059	(57,932,305)
Residential and supported living	11,978,285	-	-	(11,978,285)
Inpatient services	4,987,523	-	-	(4,987,523)
Grants and contracts	777,825	-	766,348	(11,477)
Special projects	1,120,626	-	1,061,131	(59,495)
Physical health services:				
Health plan enrollment	237,140	-	228,110	(9,030)
Health care screening	8,800	8,800	-	-
Grants and contracts	122,415	70,000	47,536	(4,879)
Substance abuse services:				
Board administration	363,640	4,435	249,109	(110,096)
Access	191,711	-	199,199	7,488
Prevention	1,427,680	12,266	1,415,414	-
Treatment	2,218,790	12,300	1,361,688	(844,802)
Local projects	582,279	-	582,278	(1)
Total business-type activities	<u>\$ 88,102,343</u>	<u>\$ 1,062,300</u>	<u>\$ 7,939,400</u>	<u>(79,100,643)</u>
General revenues:				
MDCH Contract:				
Medicaid				71,294,460
General fund				8,227,919
Substance abuse				918,716
Risk reserve funds received from affiliates				473,677
Unrestricted investment earnings				<u>298,907</u>
Total general revenues				<u>81,213,679</u>
Change in net assets				2,113,036
Net assets, beginning of year				<u>2,562,833</u>
Net assets, end of year				<u>\$ 4,675,869</u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**

**Statement of Net Assets
Proprietary Funds
September 30, 2004**

	Enterprise Funds			Internal Service Funds
	Mental Health	Substance Abuse	Total	
Assets				
Current assets:				
Cash and cash equivalents	\$ 11,697,649	\$ 1,395,751	\$ 13,093,400	\$ 617,196
Receivables:				
Due from the Michigan Department of Community Health	731,847	354,040	1,085,887	-
Due from other agencies and governments	2,330,090	135,355	2,465,445	437,786
Due from other funds	184,422	112,222	296,644	419,579
Prepaid insurance	23,535	-	23,535	-
Non-current assets:				
Operating advances to other agencies	1,000,640	34,695	1,035,335	-
Capital assets	36,200	-	36,200	-
Total assets	16,004,383	2,032,063	18,036,446	1,474,561
Liabilities				
Current liabilities:				
Accounts payable	2,703,999	606,117	3,310,116	-
Accrued payroll	128,975	18,090	147,065	-
Due to the Michigan Department of Community Health	2,244,489	1,319	2,245,808	-
Due to other agencies and governments	2,279,490	21,745	2,301,235	-
Due to other funds	515,401	200,822	716,223	-
Deferred revenue	4,584,506	1,183,970	5,768,476	-
Current portion of long-term debt	46,102	-	46,102	-
Non-current liabilities:				
Long-term debt, net of current portion	300,113	-	300,113	-
Total liabilities	12,803,075	2,032,063	14,835,138	-
Net assets				
Restricted for capital asset acquisition	310,015	-	310,015	-
Restricted for contract losses	-	-	-	1,474,561
Unrestricted	2,891,293	-	2,891,293	-
Total net assets	\$ 3,201,308	\$ -	\$ 3,201,308	\$ 1,474,561

The accompanying notes are an integral part of these financial statements.

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
**Reconciliation of Net Assets on the Statement of Net Assets
for Enterprise Funds to Net Assets of
Business-type Activities on the Statement of Net Assets
September 30, 2004**

Net assets - total enterprise funds	\$ 3,201,308
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Amounts reported for business-type activities in the statement of net assets are different because:

Internal service funds are used by management to set aside certain resources as a risk reserve against potential contract losses in future periods. The assets and liabilities of the internal service fund are included in business-type activities in the statement of net assets.

Add: net assets of business-type activities accounted for in internal service funds	<u>1,474,561</u>
---	------------------

Net assets of business-type activities	<u><u>\$ 4,675,869</u></u>
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The accompanying notes are an integral part of these financial statements.

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Statement of Revenue, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2004

	Enterprise Funds			Internal Service Funds
	Mental Health	Substance Abuse	Total	
Operating revenue				
Medicaid	\$ 71,294,460	\$ 918,716	\$ 72,213,176	\$ -
State general fund indigent	8,227,919	-	8,227,919	-
Earned revenues, grants and federal programs	1,895,829	3,407,064	5,302,893	-
Charges for services	680,861	16,701	697,562	857,365
Local revenue:				
Community appropriations	1,426,713	-	1,426,713	-
Physical health revenue	354,446	-	354,446	-
Other local revenue	807,162	412,924	1,220,086	-
 Total operating revenue	 84,687,390	 4,755,405	 89,442,795	 857,365
Operating expenses				
Mental health services:				
Board administration	3,381,850	-	3,381,850	-
Access and care management	1,559,777	-	1,559,777	-
Comprehensive support and services	59,527,690	-	59,527,690	-
Residential and supported living	11,977,487	-	11,977,487	-
Inpatient services	4,987,523	-	4,987,523	-
Grants and contracts	777,825	-	777,825	-
Special projects	1,120,626	-	1,120,626	-
Physical health services:				
Health plan enrollment	237,140	-	237,140	-
Health care screening	8,800	-	8,800	-
Grants and contracts	122,415	-	122,415	-
Substance abuse services:				
Board administration	-	363,640	363,640	-
Access	-	191,711	191,711	-
Prevention	-	1,427,680	1,427,680	-
Treatment	-	2,218,790	2,218,790	-
Local projects	-	582,279	582,279	-
 Total operating expenses	 83,701,133	 4,784,100	 88,485,233	 -
 Operating income (loss)	 986,257	 (28,695)	 957,562	 857,365

continued...

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Statement of Revenue, Expenses, and Changes in Fund Net Assets (Concluded)
Proprietary Funds
For the Year Ended September 30, 2004

	Enterprise Funds			Internal Service Funds
	Mental Health	Substance Abuse	Total	
Non-operating revenue (expense)				
Interest revenue	\$ 255,618	\$ 28,695	\$ 284,313	\$ 14,594
Interest expense	(798)	-	(798)	-
Total non-operating revenue	254,820	28,695	283,515	14,594
Change in net assets	1,241,077	-	1,241,077	871,959
Net assets, beginning of year	1,960,231	-	1,960,231	602,602
Net assets, end of year	\$ 3,201,308	\$ -	\$ 3,201,308	\$ 1,474,561

The accompanying notes are an integral part of these financial statements.

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
**Reconciliation of the Statement of Revenues, Expenses
and Changes in Fund Net Assets of Enterprise Funds
to the Statement of Activities**
For the Year Ended September 30, 2004

Change in net assets - total enterprise funds	\$ 1,241,077
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Amounts reported for business-type activities in the statement of activities are different because:

Internal service funds are used by management to set aside certain resources as a risk reserve against potential contract losses in future periods. The net revenue (expense) of those funds are reported with business-type activities.

Add: net operating income from internal service funds	857,365
Add: interest revenue from internal service funds	<u>14,594</u>

Change in net assets of business-type activities	<u><u>\$ 2,113,036</u></u>
--	----------------------------

The accompanying notes are an integral part of these financial statements.

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2004

	Enterprise Funds			Internal Service Funds
	Mental Health	Substance Abuse	Total	
Cash flows from operating activities				
Cash received from customers	\$ 85,112,192	\$ 4,790,703	\$ 89,902,895	\$ 428,891
Cash payments to suppliers for goods and services	(76,126,109)	(4,246,585)	(80,372,694)	-
Cash payments to employees for services	(2,643,030)	(300,844)	(2,943,874)	-
Cash received from interfund payments	403,179	16,400	419,579	-
Interfund payments	-	-	-	(419,579)
Net cash provided (used) by operating activities	6,746,232	259,674	7,005,906	9,312
Cash flows from capital and related financing activities				
Purchase of capital assets	(36,200)	-	(36,200)	-
Proceeds from issuance of long-term debt	350,000	-	350,000	-
Principal payments	(3,785)	-	(3,785)	-
Interest payments	(798)	-	(798)	-
Net cash provided by capital and related financing activities	309,217	-	309,217	-
Cash flows from investing activities				
Interest received	255,618	28,695	284,313	14,594
Increase in cash and cash equivalents	7,311,067	288,369	7,599,436	23,906
Cash and cash equivalents, beginning of year	4,386,582	1,107,382	5,493,964	593,290
Cash and cash equivalents, end of year	\$ 11,697,649	\$ 1,395,751	\$ 13,093,400	\$ 617,196

continued...

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Statement of Cash Flows (Concluded)
Proprietary Funds
For the Year Ended September 30, 2004

	<u>Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Mental Health</u>	<u>Substance Abuse</u>	<u>Total</u>	
Reconciliation of operating income to net cash used in operating activities				
Operating income (loss)	\$ 986,257	\$ (28,695)	\$ 957,562	\$ 857,365
Adjustments to reconcile operating income (loss) to net cash used in operating activities:				
Changes in assets and liabilities:				
Due from the Michigan Department of Community Health	(227,195)	(76,752)	(303,947)	-
Due from other agencies and governments	823,585	142,985	966,570	(428,474)
Due from other funds	(171,588)	(30,935)	(202,523)	(419,579)
Prepaid insurance	(1,097)	-	(1,097)	-
Operating advances to other agencies	48,136	66,593	114,729	-
Accounts payable	1,474,490	340,320	1,814,810	-
Accrued payroll	43,876	3,193	47,069	-
Due to the Michigan Department of Community Health	1,746,595	(399,658)	1,346,937	-
Due to other agencies and governments	8,622	(96,262)	(87,640)	-
Due to other funds	434,114	187,988	622,102	-
Deferred revenue	1,580,437	150,897	1,731,334	-
Net cash provided (used) by operating activities	<u>\$ 6,746,232</u>	<u>\$ 259,674</u>	<u>\$ 7,005,906</u>	<u>\$ 9,312</u>

Non-Cash Transactions:

There were no significant non-cash investing or financing activities during the year.

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Washtenaw Community Health Organization (“WCHO” or the “Organization”) is a governmental entity created pursuant to an agreement between Washtenaw County (the “County”) and the University of Michigan (the “University”), as authorized by Public Act 7 of 1967 (the “Urban Cooperation Act”), providing services generally in the areas of mental health, comprehensive substance abuse treatment, and developmental disabilities for the Washtenaw County region. The Organization’s activities are funded through federal grants, state allocations, premium revenue, county appropriations, service fees, and local gifts and grants. WCHO is governed by a 12-member board appointed by the County and the University. WCHO is not considered a component unit of any other government according to the provisions of GASB Statement No. 14.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Organization. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. WCHO does not have any governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*.

Fund financial statements are provided for the Organization’s proprietary funds. Major individual proprietary funds are reported as separate columns in the fund financial statements.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The operations of the Organization are accounted for in two enterprise funds (proprietary fund type) which are designed to be self-supporting. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charged; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Organization reports the following major enterprise funds:

The *mental health fund* is the general operating fund of the Organization. It is used to account for all financial resources except those required to be accounted for in another fund.

The *substance abuse fund* is used to account for the operations of the Organization's substance abuse prevention and treatment services.

Additionally, the Organization reports the following fund type:

The *internal service funds* are used to account for and finance potential uninsured risks of loss related to various funds received through the Michigan Department of Community Health (MDCH).

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Organization has elected not to follow subsequent private-sector guidance.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government's internal service fund are charges to other funds for services provided. All revenues and expenses not meeting this definition are reported as non-operating revenues.

D. Assets, Liabilities and Equity

1. Deposits and Investments

WCHO's cash and cash equivalents consist of amounts on deposit with the Washtenaw County Treasurer.

State statutes authorize units of local government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

2. Interfund Receivables/Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

3. Prepayments

Payments made to vendors for services that will benefit periods beyond September 30, 2004, if any, are recorded as "prepaid items" or "other assets" in the statement of net assets.

4. Capital Assets

Capital assets are capitalized and reported in the mental health fund, net of accumulated depreciation. The government defines capital assets as assets with an initial individual cost of at least \$5,000 and an estimated useful life of at least three years. Capital assets are depreciated on the straight-line basis over the estimated useful lives of those assets, which range from five to forty years. All purchased capital assets are recorded at cost where historical records are available and at estimated historical costs where no historical records exist.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

Donated capital assets, if any, are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized.

5. *Compensated Absences*

WCHO leases all of its employees from Washtenaw County, and reimburses the County for the costs of fringe benefits provided. Accordingly, compensated absences are charged to operations when earned by employees. Any unused vacation benefits are the responsibility of the County, and are not recognized as a liability by WCHO.

6. *Deferred Revenue*

Deferred revenue represents that portion of the current-year MDCH contract amount that may be carried-over to and expended in subsequent fiscal years. Such carryover is generally limited to five percent of the MDCH contract amount, and may be categorized as either Medicaid savings, or general fund carry-forwards.

Medicaid savings are considered local funds under the contract with MDCH, and may be spent over a period of several years in accordance with a Medicaid Reinvestment Strategy. State general funds carried over must generally be spent in the following year.

II. DETAILED NOTES ON ALL FUNDS

A. **Deposits and Investments**

While it is authorized to deposit or invest in any accounts or institutions as permitted by State statutes, WCHO has chosen to participate in Washtenaw County's investment pool, which is managed by the County Treasurer. These funds are deposited in the Treasurer's pooled accounts, and are deposited by and in the name of the County Treasurer. Other County funds are also deposited in those accounts and, as such, because of the complexities of FDIC Regulation #330.8, it is not possible to readily determine the amount of insurance that would be allocated to WCHO's deposits.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

B. Due from/to Michigan Department of Community Health

For the year ended September 30, 2004, the operations of the Organization were conducted under the terms and conditions of a managed specialty supports and services contract (the "Contract") with the Michigan Department of Community Health (MDCH). Among other provisions of this contract, the Organization has the authority to determine the nature and extent of institutional care, if any, to be provided to its clients. Thereunder, funds are advanced by the State in order for the Organization to pay for the costs of such institutional care, which is primarily procured, from certain State institutions, as well as community hospitals.

Amounts due from the MDCH at September 30, 2004, are summarized as follows:

	<u>Mental Health</u>	<u>Substance Abuse</u>	<u>Total</u>
Medicaid Managed Care Capitation	\$ 627,708	\$ -	\$ 627,708
Other grants passed through MDCH	104,139	-	104,139
Substance Abuse coordination	<u>-</u>	<u>354,040</u>	<u>354,040</u>
	<u>\$ 731,847</u>	<u>\$ 354,040</u>	<u>\$1,085,887</u>

Amounts due to the MDCH at September 30, 2004, are summarized as follows:

	<u>Mental Health</u>	<u>Substance Abuse</u>	<u>Total</u>
Institutional care services	\$ 446,632	\$ -	\$ 446,632
Cost settlement payable	1,797,857	-	1,797,857
Substance Abuse overpayments	<u>-</u>	<u>1,319</u>	<u>1,319</u>
	<u>\$ 2,244,489</u>	<u>\$ 1,319</u>	<u>\$2,245,808</u>

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

C. Due from Other Agencies and Governments

Receivables for service charges to first and third-party payors consisted of the following at September 30, 2004:

	<u>Mental Health</u>	<u>Substance Abuse</u>	<u>Internal Service Funds</u>	<u>Total</u>
Due from:				
Other governments	\$ 46,678	\$ -	\$ -	\$ 46,678
Hospitals	35,671	-	-	35,671
Other agencies	<u>2,247,741</u>	<u>135,355</u>	<u>437,786</u>	<u>2,820,882</u>
	<u>\$2,330,090</u>	<u>\$ 135,355</u>	<u>\$ 437,786</u>	<u>\$2,903,231</u>

D. Capital Assets

During the year ended September 30, 2004, WCHO made a downpayment on the purchase of four residential group homes, along with other acquisition/improvement costs in the amount of \$36,200. The full purchase price of these homes amounted to \$925,000; however, the Organization did not take title to the homes until after the end of the fiscal year. Accordingly, no depreciation was recorded in the current year.

E. Long-term Debt

Loan Payable. During the year ended September 30, 2004, WCHO received a loan from Washtenaw County to provide funds for the acquisition and construction of residential group homes. The loan was structured as a “recoverable grant” with terms similar to a 7-year mortgage with interest at 2.735% and varying amounts of principal maturing each year. Future minimum payments on the loan are as follows:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 46,102	\$ 8,894	\$ 54,996
2006	47,378	7,618	54,996
2007	48,691	6,305	54,996
2008	50,039	4,957	54,996
2009	51,425	3,571	54,996
2010	52,850	2,146	54,996
2011	<u>49,730</u>	<u>683</u>	<u>50,413</u>
Total	<u>\$ 346,215</u>	<u>\$ 34,174</u>	<u>\$ 380,389</u>

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

Following is a schedule of changes in long-term debt:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Loan payable	\$ <u>-</u>	\$ <u>350,000</u>	\$ <u>3,785</u>	\$ <u>346,215</u>

F. Interfund Receivables and Payables

The Organization has the following interfund receivables and payables:

	<u>Mental Health</u>	<u>Substance Abuse</u>	<u>Total</u>
Due from:			
Enterprise funds:			
Mental health	\$ -	\$ 184,422	\$ 184,422
Substance abuse	112,222	-	112,222
Internal Service funds:			
Mental health	403,179	-	403,179
Substance abuse	<u>-</u>	<u>16,400</u>	<u>16,400</u>
Total	\$ <u>515,401</u>	\$ <u>200,822</u>	\$ <u>716,223</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

G. Risk Reserve Fund Net Assets

Net assets in the Mental Health and Substance Abuse Risk Reserve Internal Service Funds are held as reserves against future shortfalls between revenue and expenses. Management has developed, as approved by the Board, a budget goal to reach an amount sufficient to cover the estimated potential risk exposure of \$6,094,943 in the Mental Health Risk Reserve.

Following is a schedule of changes in net assets of the Risk Reserve Internal Service Funds:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Mental health	\$ 550,404	\$ 854,338	\$ -	\$ 1,404,742
Substance abuse	<u>52,198</u>	<u>17,621</u>	<u>-</u>	<u>69,819</u>
Total	\$ <u>602,602</u>	\$ <u>871,959</u>	\$ <u>-</u>	\$ <u>1,474,561</u>

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

Additions to the Risk Reserve Internal Service Funds were comprised of interest earnings and charges to affiliates and other funds. Reductions in the Mental Health Risk Reserve, when needed, represent transfers to the Mental Health Enterprise Fund to cover expenses in excess of Medicaid authorization from MDCH. Reductions in the Substance Abuse Risk Reserve, when needed, represent transfers to the Substance Abuse Fund of amounts held in excess of allowable reserves. There were no reductions in the current year.

Contributions to the Risk Reserve Internal Service Funds are considered eligible expenses under the MDCH contract, and accordingly are included on the Statement of Revenue, Expenses, and Changes in Fund Net Assets in the various expense categories.

III. OTHER INFORMATION

A. Risk Management

The Organization is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The Organization manages its risk exposures through commercial insurance. On risks which are commercially insured, settlements have not exceeded insurance coverage in any of the past three years. In addition to these coverages, the Organization has established two internal service funds to cover any potential operating shortfalls under the terms of its contract with MDCH.

B. MDCH Revenue

The Organization provides mental health services on behalf of the Michigan Department of Community Health (MDCH) in accordance with a managed specialty supports and services contract (the “contract”). Under the contract, the Organization receives monthly capitation payments based on the number of the MDCH’s participants, regardless of services actually performed by the Organization. In addition, the MDCH makes fee-for-service payments to the Organization for certain covered services.

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

D. Related Party Transactions

As indicated previously, WCHO was created as a joint venture between Washtenaw County and the University of Michigan. As part of the agreement that created WCHO, the Organization leases its workforce from Washtenaw County. These employees were, for the most part, formerly employed by the Washtenaw County Community Mental Health Fund.

Employee compensation, including fringe benefits and retirement plans, are provided by Washtenaw County, and billed to WCHO. Leased employee costs paid to Washtenaw County amounted to \$2,943,874 for the year.

In addition, WCHO paid the County \$313,125 for central services during the year.

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**COMBINING and INDIVIDUAL FUND
FINANCIAL STATEMENTS and SCHEDULES**

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Schedule of Program Expenses
Mental Health Enterprise Fund
For the Year Ended September 30, 2004

	Board Administration	Access and Care Management	Comprehensive Services and Support	Residential and Supported Living
Expenses				
Personnel	\$ 1,979,599	\$ 1,474,209	\$ -	\$ -
State inpatient	-	-	-	-
Local inpatient	-	-	-	-
Community inpatient	-	-	-	-
Client expenses	-	1,414	260,544	-
Contracts	959,904	42,485	55,251,356	11,360,586
Cost allocation	(104,232)	-	-	-
Operations	546,579	41,669	4,015,790	616,901
Total expenses	\$ 3,381,850	\$ 1,559,777	\$ 59,527,690	\$ 11,977,487

Inpatient Services	Grants and Contracts	Special Projects
\$ -	\$ -	\$ -
2,168,379	-	-
269,233	-	-
2,538,680	-	-
-	-	-
-	777,825	1,120,626
-	-	-
11,231	-	-
<u>\$ 4,987,523</u>	<u>\$ 777,825</u>	<u>\$ 1,120,626</u>

continued...

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Schedule of Program Expenses (Concluded)
Mental Health Enterprise Fund
For the Year Ended September 30, 2004

	Physician Health Services			Total
	Health Plan Enrollments	Health Care Screening	Grants and Contracts	
Expenses				
Personnel	\$ 129,825	\$ 8,800	\$ 85,581	\$ 3,678,014
State inpatient	-	-	-	2,168,379
Local inpatient	-	-	-	269,233
Community inpatient	-	-	-	2,538,680
Client expenses	-	-	-	261,958
Contracts	66,960	-	36,702	69,616,444
Cost allocation	14,684	-	-	(89,548)
Operations	25,671	-	132	5,257,973
Total expenses	\$ 237,140	\$ 8,800	\$ 122,415	\$ 83,701,133

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Schedule of Program Expenses
Substance Abuse Enterprise Fund
For the Year Ended September 30, 2004

	Board			
	Administration	Access	Prevention	Treatment
Expenses				
Personnel	\$ 237,053	\$ 187,086	\$ -	\$ -
Contracts	92,210	-	-	-
Operations	34,377	4,625	1,427,680	2,218,790
Total expenses	\$ 363,640	\$ 191,711	\$ 1,427,680	\$ 2,218,790

Local Projects		Total	
\$ -		\$ 424,139	
		92,210	
582,279		4,267,751	
\$ 582,279		\$ 4,784,100	

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Combining Statement of Net Assets
Internal Service Funds
September 30, 2004

	Mental Health Risk Reserve	Substance Abuse Risk Reserve	Total
Assets			
Cash and cash equivalents	\$ 563,777	\$ 53,419	\$ 617,196
Due from other governments	437,786	-	437,786
Due from other funds	403,179	16,400	419,579
Total assets	1,404,742	69,819	1,474,561
Liabilities			
Due to other funds	-	-	-
Net assets			
Unrestricted	\$ 1,404,742	\$ 69,819	\$ 1,474,561

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**

**Combining Statement of Revenue, Expenses, and Changes in Fund Net Assets
Internal Service Funds**

For the Year Ended September 30, 2004

	Mental Health Risk Reserve	Substance Abuse Risk Reserve	Total
Operating revenue			
Charges for services	\$ 840,965	\$ 16,400	\$ 857,365
Non-operating revenue			
Interest revenue	13,373	1,221	14,594
Change in net assets	854,338	17,621	871,959
Net assets, beginning of year	550,404	52,198	602,602
Net assets, end of year	\$ 1,404,742	\$ 69,819	\$ 1,474,561

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended September 30, 2004

	Mental Health Risk Reserve	Substance Abuse Risk Reserve	Total
Cash flows from operating activities			
Cash received from customers	\$ 403,179	\$ 25,712	\$ 428,891
Interfund payments	(403,179)	(16,400)	(419,579)
Net cash provided (used) by operating activities	-	9,312	9,312
Cash flows from investing activities			
Interest received	13,373	1,221	14,594
Increase in cash and cash equivalents	13,373	10,533	23,906
Cash and cash equivalents, beginning of year	550,404	42,886	593,290
Cash and cash equivalents, end of year	<u>\$ 563,777</u>	<u>\$ 53,419</u>	<u>\$ 617,196</u>
Reconciliation of operating income to net cash used in operating activities			
Operating income	\$ 840,965	\$ 16,400	\$ 857,365
Adjustments to reconcile operating income to net cash used in operating activities:			
Changes in assets and liabilities:			
Due from other agencies and governments	(437,786)	9,312	(428,474)
Due from other funds	(403,179)	(16,400)	(419,579)
Net cash used in operating activities	<u>\$ -</u>	<u>\$ 9,312</u>	<u>\$ 9,312</u>

Non-Cash Transactions:

There were no significant non-cash investing or financing activities during the year.

SINGLE AUDIT SECTION



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

December 17, 2004

The Board of Directors
Washtenaw Community Health Organization
Ypsilanti, Michigan

We have audited the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Washtenaw Community Health Organization as of and for the year ended September 30, 2004, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated December 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Washtenaw Community Health Organization's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Washtenaw Community Health Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to the management of the Washtenaw Community Health Organization in a separate letter dated December 17, 2004.

This report is intended solely for the information and use of the Washtenaw Community Health Organization Board, management, others in the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

December 17, 2004

The Board of Directors
Washtenaw Community Health Organization
Ypsilanti, Michigan

Compliance

We have audited the compliance of **Washtenaw Community Health Organization** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended September 30, 2004. Washtenaw Community Health Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of Washtenaw Community Health Organization's management. Our responsibility is to express an opinion on Washtenaw Community Health Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Washtenaw Community Health Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Washtenaw Community Health Organization's compliance with those requirements.

In our opinion, Washtenaw Community Health Organization complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended September 30, 2004.

Internal Control Over Compliance

The management of Washtenaw Community Health Organization is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Washtenaw Community Health Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to the management of the Washtenaw Community Health Organization in a separate letter dated December 17, 2004.

This report is intended solely for the information and use of the Washtenaw Community Health Organization Board, management, others in the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

Washtenaw Community Health Organization
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2004

Federal Agency/Pass-Through Grantor/Program Title	CFDA Number	Federal Expenditures
U.S. Department of Health and Human Services		
Passed through Michigan Department of Community Health:		
Projects for Assistance in Transition from Homelessness (PATH)	93.150	\$ 43,000
Community Access Program	93.252	41,286
Medical Assistance Program - OBRA - PASSAR	93.778	333,536
Community Mental Health Services Block Grant:		
Wrap Services Initiative	93.958	50,000
Child Respite	93.958	4,654
Cognitive Impairment Training	93.958	56,560
Co-Occurring Disorders Training with Dr. Kenneth Minkoff	93.958	58,737
PORT-Service Capacity Expansion	93.958	67,193
SYNOD-Common Cents	93.958	4,378
Full Circle Community Center	93.958	3,062
		244,584
Substance Abuse Prevention and Treatment Block Grant:		
Prevention	93.959	535,463
Women's Specialty	93.959	100,000
Community Grant	93.959	1,231,635
SIG Grant	93.959	146,144
		2,013,242
Total expenditures of federal award		\$ 2,675,648

WASHTENAW COMMUNITY HEALTH ORGANIZATION

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Washtenaw Community Health Organization and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

2. SUBRECIPIENTS

Of the Federal expenditures presented in the schedule, Washtenaw Community Health Organization provided federal awards to subrecipients, as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Projects for Assistance in Transition From Homelessness (PATH)	93.150	\$ 43,000
Medical Assistance Program	93.778	333,536
Community Mental Health Services Block Grant	93.958	244,584
Substance Abuse Prevention and Treatment Block Grant	93.959	1,771,422

* * * * *

WASHTENAW COMMUNITY HEALTH ORGANIZATION

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2004

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses?

_____ yes X none reported

Noncompliance material to financial statements
noted?

_____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses?

_____ yes X none reported

Type of auditors' report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)?

_____ yes X no

WASHTENAW COMMUNITY HEALTH ORGANIZATION

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended September 30, 2004

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.778	Medical Assistance Program - OBRA - PASSAR
93.959	Block Grants for Prevention and Treatment of Substance Abuse
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	<u> X </u> yes <u> </u> no

SECTION II – FINANCIAL STATEMENT FINDINGS

None.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

SECTION IV – PRIOR YEAR FINDINGS

None.

* * * * *



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



December 17, 2004

To the Board of Directors of the
Washtenaw Community Health Organization
Ypsilanti, Michigan

We have audited the financial statements of Washtenaw Community Health Organization for the year ended September 30, 2004 and have issued our report thereon dated December 17, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated November 4, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Washtenaw Community Health Organization's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Washtenaw Community Health Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Washtenaw Community Health Organization's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Washtenaw Community Health Organization's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Washtenaw Community Health Organization's compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Washtenaw Community Health Organization are described in Note 1 to the financial statements. In the current year, the Organization began accounting for its operations using enterprise funds, rather than special revenue funds. Otherwise, no new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Washtenaw Community Health Organization during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Washtenaw Community Health Organization's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed (all of which were recorded by Washtenaw Community Health Organization), either individually or in the aggregate, indicate matters that could have a significant effect on Washtenaw Community Health Organization's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Washtenaw Community Health Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Board of Directors management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Lohorn". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

Washtenaw Community Health Organization

Comments and Recommendations

For the Year Ended September 30, 2004

During our audit we became aware of certain issues regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated December 17, 2004 on the financial statements of Washtenaw Community Health Organization.

Medicaid Accounts Receivable

In connection with our audit of accounts receivable, we requested certain detailed reports from the billing system (Encompass). We were informed that the system was not capable of producing a detailed subsidiary ledger of individual balances at a given point in time. The system can generate batch totals; however, this does not allow for a proper detailed reconciliation of the amount recorded as accounts receivable. We recommend that WCHO coordinate with its software vendor to determine the feasibility of modifying the current system in order to add the ability to produce this type of detailed report.

State and Local In-Patient Amounts Due to the Department of Community Health

The liabilities recorded for amounts due to MDCH at September 30, 2004, for state and local in-patient services included various balances that dated back several years. WCHO's internal policy is to review and reverse accruals not invoiced within three years of the date of service; however, this process had not yet been completed as of the date of our audit.

We recommend that WCHO follow through with its internal policy and reconcile and adjust these old balances in a timely fashion.

Delay in Final Issuance of the Audit

Primary fieldwork for the September 30, 2004 audit was completed by December 17, 2004, and management was provided with complete drafts at that time. However, due to circumstances beyond the control of management, final cost reports for MDCH were not available until early June 2005. As the cost reports are an integral part of the financial audit, this delayed the issuance of our reports for several months.

We commend management for being very well prepared for the audit in December 2004, and for a very smooth audit process, and are confident that the subsequent delay in completing the audit process was a one-time anomaly that will not repeat itself in future periods.

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